



MICHIGAN ELECTRIC AND GAS ASSOCIATION

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**Testimony of James A. Ault,
Michigan Electric and Gas Association**

**House Energy Committee
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Introduction: Good afternoon, I am Jim Ault, President of the Michigan Electric and Gas Association (MEGA). We appreciate this opportunity to provide testimony regarding electric market structure and HB 4298. On behalf of all the MEGA members, thank you for the extraordinary efforts by this committee, in the current legislative session and the past session, to investigate the circumstances of Michigan public utility regulation and the difficult issues facing our industry.

Background: MEGA is a 10 member trade association of investor-owned electric and/or gas utilities providing service in Michigan. Our members Alpena Power Company, Indiana Michigan Power Company, Upper Peninsula Power Company, and We Energies provide only electric service in this state. Members Aurora Gas Company, Citizens Gas Fuel Company, Michigan Gas Utilities, and SEMCO Energy Gas Company provide natural gas but not electric service. Combination member utilities providing both services are Northern States Power (Xcel Energy) and Wisconsin Public Service Corp.

Most of you are probably aware that some of our members serve customers in Michigan and the adjoining states of Indiana or Wisconsin.

Each MEGA member serves fewer than 300,000 Michigan customers although many are large companies by themselves or through affiliation. Indiana Michigan is the largest electric-only member, with nearly 128,000 Southwest Lower Michigan customers; the next two largest member electric providers are UPPCO at about 52,000 customers and We Energies at over 27,500, both in the Upper Peninsula.

There are two major electric generating facilities in Michigan among the MEGA members – the Presque Isle Power Plant in Marquette (We Energies) and the Cook Nuclear Plant in Bridgman (Indiana Michigan). Otherwise, some members operate hydroelectric units and peaking facilities in this state.

Electric Choice History: MEGA was neutral regarding the implementation of retail electric choice via 2000 PA 141, with members divided over the issue, as was the industry nationally. Members tried to minimize implementation costs after the act passed, out of concern that we would not see much alternative supplier activity due to the ability of the marketers to focus their offerings on the most desired customers. In the period before 2008, this held true and only in recent years did we see more customer

Alpena Power Company
Aurora Gas Company
Citizens Gas Fuel Company

Indiana Michigan Power Company
Michigan Gas Utilities
SEMCO Energy Gas Company

Upper Peninsula Power Company
We Energies
Wisconsin Public Service Corporation
Xcel Energy

switching, such as the situation in the Upper Peninsula affecting We Energies and the Presque Isle Power Plant.

At the time electric retail choice was debated and proposed, it was supposed to be transformational leading to a completely restructured market with choice available to all classes of customers. In Michigan and many other states, this did not happen and instead choice became a means for some customers to bypass the traditional regulated utility electric generating costs in favor of cheaper electricity available through alternative providers accessing the wholesale markets.

Market Structure in HB 4298: MEGA can support the proposed re-regulation in this bill because the present circumstances indicate there are many uncertainties regarding the availability and cost of electric generation going forward and it is dangerous to further Balkanize the generation market and risk unintended consequences similar to those that derailed the national movement towards retail choice in the early 2000s. Having said this, we are not unmindful of the cost concerns expressed by business and residential customers and the desire for affordable and reliable electricity. We believe these concerns can be addressed in a regulated electric model.

Integrated Resource Planning: The changes proposed to 1939 PA 3, Section 6s call for a contested IRP proceeding every 5 years for all electric utilities and the act lists detailed requirements for the supporting forecasts and studies. The multistate MEGA electric utilities would like to see an integration of the Michigan process with similar requirements in the adjoining states, because the systems are planned based on total service needs not state boundaries. This could take the form of allowing an IRP prepared in the adjoining state to be used for the filing in Michigan, with appropriate input from the MPSC.

Another concern stems from the relatively low customer numbers of MEGA electric utilities. A contested IRP process required every five years could prove quite costly to individual customers who must foot the bill as part of the cost of service. There are just not many customers over which to spread these costs. Further, companies such as Alpena Power (relies on long term purchased power and owns no generation), Indiana Michigan (Cook plant capacity will meet most need far into the future), NSP/Xcel (no Michigan generation likely to be needed as there are few Michigan customers and facilities located in Wisconsin meet their needs) and UPPCo (owned hydro in Michigan + purchased power) have circumstances that can be addressed in more efficient regulatory processes. Repeated engineering and transmission studies to support the IRP every 5 years will be expensive. We suggest that the MPSC be allowed to develop flexible alternative procedures for these companies, similar to the option allowed to utilities with fewer than 1 million customers and less costly projects, in the current certificate of need Section 6s(2). Another possibility is to provide for a high level, non-contested case IRP filing for utilities not anticipating major generating projects. Written comments from interested parties could be allowed on these filings. The certificate of need case could be used for the contested matter, when a specific project is proposed.

Environmental Compliance Proceedings: As written, the new Section 6T(1) appears to require that need alone could trigger this type of proceeding. We are seeking to understand whether this process would always substitute for the IRP and CON options in Section 6s. Obtaining the early input from the Department of Environmental Quality is a positive step. Regulatory flexibility for the smaller utilities should apply to this provision as well, if added for the IRP process.

Consumer Protection Board: MEGA appreciates the proposal to add “lower costs for residential customers” as a factor in deciding funding grants for ratepayer intervention in MPSC cases. This should be emphasized because the funding is collected through utility rates and the general interest of utility customers may not be in line with the positions of environmental, policy and technology advocacy groups who are being funded through this provision.

Rate Self Implementation: If the proposal to remove authorization for self-implementation of proposed rates remains in Section 6a, MEGA urges that the authority for a forward test year and shorter 10 month time for review of a case be retained. This appears to be the current intent of the proposal. Natural gas utilities face the issue of revenue being concentrated in the November-April heating season. Even a 10-month limit can result in a serious regulatory lag problem if the final order comes late in the heating season. For this reason, self-implementation should be retained for gas utilities.

The proposal for “historic refunds” for all gas and electric overcharges could be difficult to administer for numerous residential and small commercial customers with small refund amounts, who leave the service area, change addresses and go out of business. An unclaimed refund balance will arise and lead to escheat to the state. MEGA suggests that a customer consumption threshold for this historic refund provision would ease the administrative burden.

Low Income Shutoff Protection: Section 10t was added in 2000 PA 141 to codify the existing electric shutoff protection rule and make sure it applied to the new alternative suppliers. If re-regulation occurs, this shutoff protection measure should be removed from the statute entirely because there are MPSC administrative rules on shutoff protection and those rules for electric service cannot be adjusted if the statute specifies the complete program. There have been advances in the winter protection programs since 2000 that should be allowed by more flexible rulemaking.

Electric Decoupling: MEGA urges the committee to consider restoring the MPSC authority to consider decoupling in electric rate setting on a case by case basis, somewhere in the statutory amendments. This change would not mandate decoupling for any specific utility but would improve the adaptability of regulation such as removal of a disincentive for utilities to implement energy efficiency measures that reduce sales and earnings in between complete rate cases. This issue is important to the IRP or other planning process where energy efficiency would be one of the options considered to meet need, and it should not be disadvantaged versus other options.

Thank you for considering these comments. MEGA supports the bill subject to the discussion above. We look forward to working with you on these important energy policy issues. We are happy to provide you with any additional information and draft language as may be needed.

